

MT. MORRIS CONSOLIDATED SCHOOLS

MT. MORRIS, MICHIGAN

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2005

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 23, 2005

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Mt. Morris Consolidated Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mt. Morris Consolidated Schools, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mt. Morris Consolidated Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mt. Morris Consolidated Schools as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated August 23, 2005 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II - VIII and 17, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mt. Morris Consolidated Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf P.C.

LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MT. MORRIS CONSOLIDATED SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Mt. Morris Consolidated Schools, a K-12 school District located in Genesee County, Michigan, is in its third year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Mt. Morris Consolidated Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005.

Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

MT. MORRIS CONSOLIDATED SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

District Wide Financial Statements: (Continued)

These two statements report the Mt. Morris Consolidated Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreased in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2005 and 2004.

NET ASSETS SUMMARY

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Current Assets	\$7,996,599	\$8,344,008
Non-Current Assets	<u>2,010,951</u>	<u>2,496,159</u>
<u>TOTAL ASSETS</u>	<u>\$10,007,550</u>	<u>\$10,840,167</u>
<u>LIABILITIES</u>		
Current Liabilities	\$3,244,484	\$3,309,456
Long-Term Liabilities	<u>1,343,088</u>	<u>1,384,791</u>
Total Liabilities	\$4,587,572	\$4,694,247
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	1,652,666	2,137,874
Unrestricted	<u>3,767,312</u>	<u>4,008,046</u>
Total Net Assets	<u>\$5,419,978</u>	<u>\$6,145,920</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$10,007,550</u>	<u>\$10,840,167</u>

MT. MORRIS CONSOLIDATED SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2005 and 2004, the District wide results of operations were:

	<u>2005</u>	<u>2004</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$1,550,676	\$1,548,918
State of Michigan Unrestricted Foundation Aid	21,121,734	20,922,976
Other General Revenues	<u>125,400</u>	<u>497,227</u>
Total General Revenues	\$22,797,810	\$22,969,121
<u>Operating Grants:</u>		
Federal	2,484,381	2,278,703
State of Michigan	2,568,894	2,590,314
Other Grants	<u>188,805</u>	<u>111,405</u>
Total Operating Grants	\$5,242,080	\$4,980,422
<u>Charges for Services:</u>		
Food Service	273,526	304,848
Athletics	39,087	42,163
Other Charges for Services	<u>554,877</u>	<u>383,490</u>
Total Charges for Services	<u>\$867,490</u>	<u>\$730,501</u>
Total Revenues	\$28,907,380	\$28,680,044
<u>EXPENSES</u>		
Instruction & Instructional Support	16,791,607	16,766,478
Support Services	11,380,739	10,142,067
Community Services	50,736	25,507
Food Service	883,632	865,725
Athletics	396,960	403,784
Non-Educational Activities	23,594	19,232
Depreciation	<u>106,054</u>	<u>110,078</u>
Total Expenses	<u>\$29,633,322</u>	<u>\$28,332,871</u>
<u>INCREASE (DECREASE) IN NET ASSETS</u>	(\$725,942)	\$347,173
<u>BEGINNING NET ASSETS</u>	<u>6,145,920</u>	<u>5,798,747</u>
<u>ENDING NET ASSETS</u>	<u><u>\$5,419,978</u></u>	<u><u>\$6,145,920</u></u>

MT. MORRIS CONSOLIDATED SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2005, the District's Total Net Assets decreased by \$725,942 to a total of \$5,419,978. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) decreased by \$485,208 during the year due to depreciation exceeding purchases of new capital assets and principal payments on related debt. The districts Unrestricted Net Assets decreased by \$240,734 during the year. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall expenditures exceeded its revenues for the year by \$725,942. The total revenues increased by \$227,336, or 1% over last years amounts. The major changes were increases in state aid and federal grant funding. Expenditures increased by \$1,300,451, or 4% over last year. The major changes were increases in depreciation, wages, and fringe benefits.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$235,453 during the year with the decrease coming primarily in cash. Several sources contributed to increased revenues of \$204,351 for the year. Most important to public school funding is pupil enrollment and associated state aid funding. While K-12 enrollment is declining in the district, enrollment in the alternative education and auxiliary programs increased by 62 FTE resulting in an overall increase in state aid of \$112,446. Another contributing factor to increased revenues is state and federal grant funding. The socioeconomic status of the community continues to qualify the district for added funding. This year the district recognized an increase of \$291,872. A third factor impacting revenue is the district's building trade program. Houses are constructed and sold soon after completion. Selling two homes in the prior year caused a reduction in revenues of \$300,592. Finally, the Genesee Intermediate School District distributed additional Act 18 Special Education Tax fund balance to county schools, generating an additional \$153,597 for the district.

Expenditures and other financing uses increased by \$831,394 primarily from increases in wages, retirement costs, and health insurance premiums totaling over \$590,000. In addition, the maintenance and transportation department have recognized significant expense increases. The district also invested \$301,133 in district wide math and science curriculums.

The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead tax levy

MT. MORRIS CONSOLIDATED SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Mt. Morris Consolidated Schools foundation allowance was \$6,700 per student for the 2004-2005 school year. While inflation continues to rise, this is the third consecutive year that the foundation allowance had a 0% increase.

3. Student Enrollment:

The District's student enrollment for the fall count of 2004-2005 was 3,432; a decrease of 64 students from the prior year. Enrollment in the alternative education program causes fluctuation in total enrollment year to year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2004-2005 fiscal year was \$1,550,676. An increase of \$1,758 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original & Final Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$27,125,188	\$28,321,019	\$27,998,153	4.41	1.14
Expenditures	27,913,115	28,986,608	28,233,606	3.85	2.60
<u>TOTAL</u>	<u>(\$787,927)</u>	<u>(\$665,589)</u>	<u>(\$235,453)</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Mt. Morris Consolidated Schools amends its budget during the school year. The June, 2005 budget amendment was the final budget for the fiscal year.

MT. MORRIS CONSOLIDATED SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

ANALYSIS OF BUDGETS: (Continued)

- Original vs. Final Budgets
 - Revenues – Several significant items affect the Original vs. Final revenues. At the time of original budget adoption, enrollment figures and state aid funding subject to legislative action are estimates only. With the official student count and foundation allowance, the budget is amended to reflect accurate revenues. Grant allocations received throughout the year also cause a change in budgeted revenues.
 - Expenditures – Several significant items affect the Original vs. Final expenditures. At the time of original budget adoption, staffing changes based on retirement and changes in enrollment are estimates. As actual wage and fringe benefit costs are determined, the budget is amended. In addition, as grant allocations are received, the budget is amended to reflect the anticipated expenditure of those funds. During the course of the year, the board approved additional expenditures of textbooks and other necessary purchases which required expense budget amendments.
- Final Budget vs. Actual Results
 - Revenues – Three factors having a significant impact on differences between the Final vs. Actual budget include the receipt of unknown revenues, unexpended grant funds, and the timing of the building trade house sale. The level of Medicaid Outreach and Fee for Service funding is unknown until received. The district received \$54,970 after the final amendment. Year-end unexpended grant funds totaling \$263,242 will be added to the 2005-06 amended budget. The 2004-05 building trades house was not sold prior to June 30, 2005, causing a variance of \$174,900.
 - Expenditures – Several factors had a major impact on the differences between the Final vs. Actual budget. The first budget variance stems from grant funds of \$263,242 that were not spent prior to June 30, 2005. A second variance is due to the transfer of \$154,470 to an inventory account for unsold building trade house expenses. Thirdly, in order to spread the burden of major purchases, the district allows remaining discretionary monies to be combined with future year allocations. As of June 30, 2005, \$89,306 in unspent discretionary funds remained. During the 2005-06 budget amendment, these funds will be added to the budget for expenditure.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-04	Increases 6-30-05	Principal Payments 6-30-05	Principal Balance 6-30-05
Durant Bonds	\$358,285	\$0	\$0	\$358,285
Sick & Terminal Leave Pay	1,026,506	0	14,558	1,011,948
<u>Total Long-Term Obligations</u>	<u>\$1,384,791</u>	<u>\$0</u>	<u>\$14,558</u>	<u>\$1,370,233</u>

MT. MORRIS CONSOLIDATED SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

B. Net Investment in Capital Assets

The district's net investment in capital assets decreased by \$485,208 during the fiscal year. This can be summarized as follows:

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
Capital Assets	\$9,274,044	\$76,828	\$215,163	\$9,135,709
Less: Accumulated Depreciation	(6,777,885)	(346,873)	0	(7,124,758)
<u>Net Investment Capital Outlay</u>	<u>\$2,496,159</u>	<u>(\$270,045)</u>	<u>\$215,163</u>	<u>\$2,010,951</u>

Significant additions was the purchase of a bus.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Mt. Morris Consolidated Schools.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$1,011,991	\$1,255,405
Investments	1,999,251	2,381,895
Property Taxes Receivable	3,775	95
Accounts Receivable	48,164	17,940
Due from Other Governmental Units	4,758,978	4,606,979
Due from Internal Accounts	44	0
Inventory	150,514	208
Prepaid Expenses	23,882	81,486
Total Current Assets	<u>\$7,996,599</u>	<u>\$8,344,008</u>
<u>NON-CURRENT ASSETS</u>		
Capital Assets	9,135,709	9,274,044
Less: Accumulated Depreciation	<u>(7,124,758)</u>	<u>(6,777,885)</u>
Total Noncurrent Assets	<u>\$2,010,951</u>	<u>\$2,496,159</u>
<u>TOTAL ASSETS</u>	<u>\$10,007,550</u>	<u>\$10,840,167</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	113,445	6,681
State Aid Anticipation Note Payable	1,423,698	1,518,613
Due to Other Governmental Units	32,335	0
Accrued Expenses	727,049	798,203
Salaries Payable	920,734	867,866
Deferred Revenue	78	118,093
Current Portion of Long-Term Obligations	27,145	0
Total Current Liabilities	<u>\$3,244,484</u>	<u>\$3,309,456</u>
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	<u>1,343,088</u>	<u>1,384,791</u>
<u>TOTAL LIABILITIES</u>	<u>\$4,587,572</u>	<u>\$4,694,247</u>
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	1,652,666	2,137,874
Unrestricted	<u>3,767,312</u>	<u>4,008,046</u>
<u>TOTAL NET ASSETS</u>	<u>\$5,419,978</u>	<u>\$6,145,920</u>

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
STATEMENTS OF ACTIVITIES
JUNE 30, 2005 AND 2004

FUNCTIONS/PROGRAMS	2005			2004
	Expenses	Program Revenues		Net (Expense)
		Charges For	Operating	Revenue &
		Services	Grants and	Change in
			Contributions	Net Assets
Governmental Activities:				Net (Expense)
Instruction	\$16,791,607	\$385,877	\$4,411,002	Revenue &
Support Services	11,380,739	144,976	244,886	Change in
Community Services	50,736	24,024	0	Net Assets
Food Service	883,632	273,526	586,192	
Athletics	396,960	39,087	0	
Non-Education Activities	23,594	0	0	
Depreciation - Unallocated	106,054	0	0	
<u>TOTALS</u>	<u>\$29,633,322</u>	<u>\$867,490</u>	<u>\$5,242,080</u>	<u>(\$23,523,752)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				1,550,676
State Aid				21,121,734
Grants and Contributions Not Restricted to				
Specific Programs				5,539
Investment Earnings				60,177
Miscellaneous				59,684
Total General Revenues and Transfers				<u>\$22,797,810</u>
Change in Net Assets				<u>(\$725,942)</u>
Net Assets - Beginning				<u>6,145,920</u>
<u>Net Assets - Ending</u>				<u>\$5,419,978</u>

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$880,009	\$131,982	\$1,011,991
Investments	1,999,251	0	1,999,251
Property Taxes Receivable	3,775	0	3,775
Accounts Receivable	48,164	0	48,164
Due from Other Governmental Units	4,752,755	6,223	4,758,978
Due from Other Funds	0	44	44
Inventory	150,426	88	150,514
Prepaid Expenses	23,882	0	23,882
<u>TOTAL ASSETS</u>	<u>\$7,858,262</u>	<u>\$138,337</u>	<u>\$7,996,599</u>
<u>LIABILITIES</u>			
Accounts Payable	\$113,047	\$398	\$113,445
State Aid Anticipation Note Payable	1,423,698	0	1,423,698
Due from Other Governmental Units	32,335	0	32,335
Accrued Expenses	726,442	607	727,049
Salaries Payable	918,042	2,692	920,734
Deferred Revenue	78	0	78
Total Liabilities	\$3,213,642	\$3,697	\$3,217,339
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	150,426	88	150,514
Prepaid Expenses	23,882	0	23,882
Designated	21,169	0	21,169
Unreserved:			
Undesignated, Reported In:			
General Fund	4,449,143	0	4,449,143
School Service Funds	0	134,552	134,552
Total Fund Balances	\$4,644,620	\$134,640	\$4,779,260
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$7,858,262</u>	<u>\$138,337</u>	<u>\$7,996,599</u>

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total Governmental Fund Balances:		\$4,779,260
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$9,135,709 and the accumulated depreciation is \$7,124,758		2,010,951
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$358,285	
Compensated Absences Payable	1,011,948	
Total Long-Term Liabilities		<u>(1,370,233)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u>\$5,419,978</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General	Other	Total
	Fund	Governmental	Governmental
		Funds	Funds
<u>REVENUES</u>			
Local Sources	\$2,004,384	\$323,035	\$2,327,419
State Sources	23,641,992	48,636	23,690,628
Federal Sources	1,946,825	537,556	2,484,381
Total Revenues	\$27,593,201	\$909,227	\$28,502,428
<u>EXPENDITURES</u>			
Current:			
Instruction	16,786,252	0	16,786,252
Student Services	1,783,418	0	1,783,418
Instructional Support	1,277,577	0	1,277,577
General Administration	592,821	0	592,821
School Administration	2,330,361	0	2,330,361
Business Administration	384,019	0	384,019
Operation & Maintenance of Plant	2,734,926	0	2,734,926
Transportation	1,017,227	0	1,017,227
Support Services - Other	766,877	0	766,877
Community Services	50,736	0	50,736
Special Revenue	0	1,294,164	1,294,164
Total Expenditures	\$27,724,214	\$1,294,164	\$29,018,378
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(\$131,013)	(\$384,937)	(\$515,950)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers from (to) Other Funds	(365,098)	365,098	0
Other Transfers	260,658	0	260,658
Total Other Financing Sources (Uses)	(\$104,440)	\$365,098	\$260,658
Net Change in Fund Balance	(\$235,453)	(\$19,839)	(\$255,292)
<u>FUND BALANCE - BEGINNING</u>	4,880,073	154,479	5,034,552
<u>FUND BALANCE - ENDING</u>	\$4,644,620	\$134,640	\$4,779,260

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Total net change in fund balances - governmental funds	(\$255,292)
--	-------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

(485,208)

Decrease in accrued compensated absences

<u>14,558</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

<u>(\$725,942)</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

	<u>Trust & Agency</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$204,976</u>
<u>TOTAL ASSETS</u>	<u>\$204,976</u>
<u>LIABILITIES</u>	
Due to Other Funds	\$44
Due to Student Groups	<u>204,932</u>
<u>TOTAL LIABILITIES</u>	<u>\$204,976</u>

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mt. Morris Consolidated Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains three school service funds: Food Service, Athletic and Non-Educational Funds.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$10,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

O) RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2005, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF External Investment Pool - MICMS	\$ 3,322	0.0027	AAAm	0.17%
MILAF External Investment Pool - MIMAX	1,995,929	0.0027	AAAm	99.83%
Total fair value	<u>\$ 1,999,251</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in pooled investment accounts which represents 100% of the District's total investments.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

4) DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$1,928,737 of the District's bank balance of \$2,039,591 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$204,976	\$ 1,216,967
Investments	<u>1,999,251</u>
<u>TOTAL</u>	<u>\$ 3,216,218</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 204,976
Cash – District Wide	1,011,991
Investments – District Wide	<u>1,999,251</u>
<u>TOTAL</u>	<u>\$ 3,216,218</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2005, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 4,249,609
Federal Grants	447,911
Other Grant Programs & Fees	<u>61,458</u>
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 4,758,978</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2005, the School District had estimated claims of \$11,691 in conjunction with the program.

8) FUND BALANCE DESIGNATIONS

The District's Board of Education has designated \$21,169 of the District's General Fund fund balance for the following areas:

GenNet Expansion	\$ 21,169
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9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2004</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2005</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$7,209,434	\$0	\$156,799	\$7,052,635
Land Improvements	376,439	0	0	376,439
Equipment and Furniture	550,120	0	58,364	491,756
Vehicles	1,138,051	76,828	0	1,214,879
Totals at Historical Cost	\$9,274,044	\$76,828	\$215,163	\$9,135,709
Less: Accumulated Depreciation				
Buildings and Improvements	(5,438,696)	(106,054)	0	(5,544,750)
Land Improvements	(286,615)	(9,147)	0	(295,762)
Equipment and Furniture	(415,580)	(11,733)	0	(427,313)
Vehicles	(636,994)	(219,939)	0	(856,933)
Total Accumulated Depreciation	(\$6,777,885)	(\$346,873)	\$0	(\$7,124,758)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	\$2,496,159	(\$270,045)	\$215,163	\$2,010,951

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 5,355
Support Services	225,442
Athletics	10,022
Unallocated	106,054
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 346,873</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2005 were \$133,356 and the School District received a dividend refund of \$18,320.

11) SHORT-TERM DEBT

The District borrowed \$1,400,000 at 1.875% interest per annum on September 24, 2004, from Citizens Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The balance including interest as of June 30, 2005 was \$1,423,698. The note matures August 19, 2005.

12) LONG-TERM LIABILITIES

A) Durant Resolution Package Bonds

Mt. Morris Consolidated Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$560,813 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2005 was \$358,285. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

B) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2005 are as follows:

	BONDS		
	PAYABLE	INTEREST	TOTAL
June 30, 2006	\$27,145	\$12,237	\$39,382
June 30, 2007	28,431	10,944	39,375
June 30, 2008	131,077	54,768	185,845
June 30, 2009	31,211	8,172	39,383
June 30, 2010	32,696	6,686	39,382
June 30, 2010-2013	107,725	10,417	118,142
<u>TOTAL</u>	<u>\$358,285</u>	<u>\$103,224</u>	<u>\$461,509</u>

The payment dates of sick and terminal leave days payable is undeterminable. The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$0.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

12) LONG-TERM LIABILITIES (Continued)

C) Changes in General Long-Term Debt

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2005.

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005	AMOUNT DUE IN ONE YEAR
<u>Governmental Activities:</u>					
Durant Bonds	\$358,285	\$0	\$0	\$358,285	\$27,145
Sick & Terminal Leave Pay	1,026,506	0	14,558	1,011,948	0
<u>Total Governmental Activities</u>	<u>\$1,384,791</u>	<u>\$0</u>	<u>\$14,558</u>	<u>\$1,370,233</u>	<u>\$27,145</u>

12) INTERFUND ACTIVITY

Interfund balances at June 30, 2005 consisted of the following:

DUE FROM	
DUE TO	Non-Educational Activities
	Trust & Agency Fund
	<u>\$44</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

13) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following:

TRANSFERS FROM	
TRANSFERS TO	GENERAL FUND
	Athletics Fund
	Non-Educational Fund
	<u>TOTAL</u>
	<u>\$365,098</u>

These transfers were made to subsidized the cost of services for athletics and the non-educational fund.

14) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

14) DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2004 through September 30, 2004 and 14.87 percent for the period October 1, 2004 through June 30, 2005 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2005, 2004 and 2003 were \$2,411,587, \$2,185,469 and \$2,043,686, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

15) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

16) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principally of which are the Title I and Special Education Cluster grants. These programs are subject to program compliance audits. The audit of these programs for and including the year ended June 30, 2005, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

17) SUBSEQUENT EVENT

The District has approved borrowing \$2,500,000 at a interest rate of 3.3% from the State Bank to meet cash flow needs for the 2005-2006 fiscal year. The bonds will be issued September 16, 2005 with a maturity date August 18, 2006.

REQUIRED
SUPPLEMENTARY
INFORMATION

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$1,953,605	\$1,997,369	\$2,004,384	\$7,015
State Sources	22,893,339	23,628,818	23,641,992	13,174
Federal Sources	1,891,310	2,124,843	1,946,825	(178,018)
Total Revenues	<u>\$26,738,254</u>	<u>\$27,751,030</u>	<u>\$27,593,201</u>	<u>(\$157,829)</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	17,129,921	17,034,930	16,786,252	248,678
Student Services	1,755,518	1,868,901	1,783,418	85,483
Instructional Support	1,289,269	1,467,509	1,277,577	189,932
General Administration	458,615	607,151	592,821	14,330
School Administration	2,210,430	2,377,238	2,330,361	46,877
Business Administration	391,781	386,588	384,019	2,569
Operation & Maintenance of Plant	2,652,477	2,796,920	2,734,926	61,994
Transportation	1,055,142	1,068,275	1,017,227	51,048
Support Services - Other	473,461	806,014	766,877	39,137
Community Services	135,903	207,984	50,736	157,248
Total Expenditures	<u>\$27,552,517</u>	<u>\$28,621,510</u>	<u>\$27,724,214</u>	<u>\$897,296</u>
Excess of Revenues Over Expenditures	<u>(\$814,263)</u>	<u>(\$870,480)</u>	<u>(\$131,013)</u>	<u>\$739,467</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>26,336</u>	<u>204,891</u>	<u>(104,440)</u>	<u>(309,331)</u>
Net Change in Fund Balance	<u>(\$787,927)</u>	<u>(\$665,589)</u>	<u>(\$235,453)</u>	<u>\$430,136</u>
<u>FUND BALANCE - BEGINNING</u>			<u>4,880,073</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$4,644,620</u>	

OTHER SUPPLEMENTAL
INFORMATION

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
SPECIAL REVENUE FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2005

	FOOD SERVICES	ATHLETIC ACTIVITIES	NON- EDUCATIONAL ACTIVITIES	TOTALS
<u>ASSETS</u>				
Cash and Cash Equivalents	\$92,029	\$39,565	\$388	\$131,982
Due From Other Governmental Units	6,223	0	0	6,223
Due From Other Funds	0	0	44	44
Inventory	88	0	0	88
<u>TOTAL ASSETS</u>	<u>\$98,340</u>	<u>\$39,565</u>	<u>\$432</u>	<u>\$138,337</u>
<u>LIABILITIES</u>				
Accounts Payable	\$375	\$0	\$23	\$398
Accrued Expenses	242	365	0	607
Salaries Payable	1,076	1,616	0	2,692
Total Liabilities	\$1,693	\$1,981	\$23	\$3,697
<u>FUND EQUITY</u>				
Fund Balance - Reserved for Inventory	88	0	0	88
Fund Balance - Unreserved and Undesignated	96,559	37,584	409	134,552
Total Fund Equity	\$96,647	\$37,584	\$409	\$134,640
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$98,340</u>	<u>\$39,565</u>	<u>\$432</u>	<u>\$138,337</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
SPECIAL REVENUE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

	FOOD SERVICES	ATHLETIC ACTIVITIES	NON- EDUCATIONAL ACTIVITIES	TOTALS
<u>REVENUES</u>				
<u>Local Sources</u>				
Cafeteria Sales	\$273,526	\$0	\$0	\$273,526
Athletic Activities	0	39,087	0	39,087
Other Local Revenues	0	0	10,422	10,422
Total Local Sources	\$273,526	\$39,087	\$10,422	\$323,035
<u>State Sources</u>				
State Reimbursements	48,636	0	0	48,636
<u>Federal Sources</u>				
Federal Reimbursements	537,556	0	0	537,556
Total Revenues	\$859,718	\$39,087	\$10,422	\$909,227
<u>OTHER FINANCING SOURCES</u>				
Transfers from General Fund	0	351,698	13,400	365,098
Total Revenues and Other Financing Sources	\$859,718	\$390,785	\$23,822	\$1,274,325
<u>EXPENDITURES</u>				
Salaries - Professional	0	41,455	0	41,455
Salaries - Non-Professional	270,110	185,288	4,939	460,337
Insurances	74,555	17,796	0	92,351
Fica, Retirement, Etc.	60,108	47,910	695	108,713
Other Benefits	0	0	0	0
Purchased Services	13,685	30,080	8,430	52,195
Supplies and Materials	457,907	20,589	3,530	482,026
Capital Outlay	650	500	5,972	7,122
Other	6,617	43,320	28	49,965
Total Expenditures	\$883,632	\$386,938	\$23,594	\$1,294,164
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	<u>(\$23,914)</u>	<u>\$3,847</u>	<u>\$228</u>	<u>(\$19,839)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$120,561</u>	<u>\$33,737</u>	<u>\$181</u>	<u>\$154,479</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$96,647</u>	<u>\$37,584</u>	<u>\$409</u>	<u>\$134,640</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2005

REVENUES FROMLocal Sources

Current Taxes	\$1,550,676
Earnings on Investments and Deposits	60,177
Tuition and Adult Education	37,024
Medicaid School Based Services	79,617
GVRC County Reimbursement	56,283
Other Local Revenues	220,607
Total Revenues from Local Sources	<u>\$2,004,384</u>

State Sources

State Aid - Membership - Sec. 20	21,121,734
Court Placed Children	116,035
Other State Grants from ISD	125,581
Michigan School Readiness	455,400
Special Ed Headlee	760,502
Vocational Education Added Cost - Sec. 61a.1	46,104
Durant	56,081
At-Risk Pupils - Sec. 31A	871,300
Gifted and Talented - Sec. 57.3	472
Adult Education - Sec. 107.1	88,783
Total Revenues from State Sources	<u>\$23,641,992</u>

Federal Sources

Title I	562,712
Comprehensive School Reform	154,688
Title V	16,710
Technology Literacy Challenge	13,820
Indian Education	114,481
Improving Teacher Quality	184,498
Bridges	21,097
IDEA Flowthrough	771,033
Medicaid	28,853
Pep - CM White Physical Fitness - GISD	937
Safe & Drug Free Learning	9,696
Safe & Drug Free Schools	1,709
Preschool Incentive	40,357
Transition Services	2,300
Vocational Education	23,484
WIA Year Round Youth Services	450
Total Revenues from Federal Sources	<u>\$1,946,825</u>
Total Revenues	<u>\$27,593,201</u>

OTHER FINANCING SOURCES

County Special Education Tax	348,853
House Project Bill Backs	22,638
Other	33,461
Total Other Financing Sources	<u>\$404,952</u>

TOTAL REVENUES AND OTHER FINANCING SOURCES

\$27,998,153

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTIONBASIC PROGRAMSCentral Elementary

Salaries - Professional	\$1,489,549
Salaries - Non-Professional	60,964
Insurances	342,779
Fica, Retirement, Etc.	342,985
Purchased Services	111,260
Supplies and Materials	75,022
Capital Outlay	3,387
Other	50
Total Central Elementary	<u>\$2,425,996</u>

Montague Elementary

Salaries - Professional	642,702
Salaries - Non-Professional	23,868
Insurances	180,309
Fica, Retirement, Etc.	148,516
Purchased Services	8,251
Supplies and Materials	42,387
Capital Outlay	2,356
Other	1,921
Total Montague Elementary	<u>\$1,050,310</u>

Moore Elementary

Salaries - Professional	718,062
Salaries - Non-Professional	39,171
Insurances	184,231
Fica, Retirement, Etc.	165,138
Purchased Services	8,896
Supplies and Materials	42,600
Capital Outlay	562
Other	5,208
Total Moore Elementary	<u>\$1,163,868</u>

Pinehurst Elementary

Salaries - Professional	693,633
Salaries - Non-Professional	25,330
Insurances	182,893
Fica, Retirement, Etc.	160,287
Purchased Services	9,185
Supplies and Materials	44,302
Capital Outlay	1,524
Other	2,052
Total Pinehurst Elementary	<u>\$1,119,206</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTION (Continued)BASIC PROGRAMS (Continued)Junior High

Salaries - Professional	\$1,141,632
Salaries - Non-Professional	33,227
Insurances	306,293
Fica, Retirement, Etc.	259,866
Purchased Services	43,546
Supplies and Materials	102,817
Capital Outlay	336
Other	4,737
Total Junior High	<u>\$1,892,454</u>

High School

Salaries - Professional	2,805,807
Salaries - Non-Professional	118,346
Insurances	486,529
Fica, Retirement, Etc.	643,676
Purchased Services	265,222
Supplies and Materials	208,746
Capital Outlay	105,834
Other	4,751
Total High School	<u>\$4,638,911</u>

Preschool

Salaries - Professional	181,068
Salaries - Non-Professional	85,612
Insurances	31,975
Fica, Retirement, Etc.	59,475
Supplies and Materials	24,321
Other	171
Total Preschool	<u>\$382,622</u>

Summer School - High School

Salaries - Professional	12,210
Fica, Retirement, Etc.	2,582
Supplies and Materials	562
Total Summer School - High School	<u>\$15,354</u>

Total Basic Programs

\$12,688,721

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

INSTRUCTION (Continued)ADDED NEEDSSPECIAL EDUCATION

Salaries - Professional	\$1,234,138
Salaries - Non-Professional	344,172
Insurances	295,396
Fica, Retirement, Etc.	345,385
Purchased Services	215
Supplies and Materials	41,039
Other	603
Total Special Education	<u>\$2,260,948</u>

COMPENSATORY EDUCATION

Salaries - Professional	434,352
Salaries - Non-Professional	253,976
Insurances	65,553
Fica, Retirement, Etc.	151,502
Purchased Services	8,153
Supplies and Materials	185,680
Capital Outlay	58,558
Other	12,187
Total Compensatory Education	<u>\$1,169,961</u>

VOCATIONAL EDUCATION

Salaries - Professional	371,532
Insurances	78,621
Fica, Retirement, Etc.	81,888
Supplies and Materials	5,447
Capital Outlay	26,547
Other	410
Total Vocational Education	<u>\$564,445</u>

<u>Total Added Needs</u>	<u>\$3,995,354</u>
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ADULT EDUCATION

Salaries - Professional	82,729
Salaries - Non-Professional	293
Fica, Retirement, Etc.	18,675
Supplies and Materials	480
Total Adult/Continuing Education	<u>\$102,177</u>

<u>Total Instruction</u>	<u>\$16,786,252</u>
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MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICESSTUDENT SERVICES

Salaries - Professional	\$829,153
Salaries - Non-Professional	306,265
Insurances	203,197
Fica, Retirement, Etc.	252,980
Purchased Services	89,061
Supplies and Materials	37,345
Capital Outlay	63,422
Other	1,995
Total Student Services	<u>\$1,783,418</u>

INSTRUCTIONAL STAFF

Salaries - Professional	411,869
Salaries - Non-Professional	230,687
Insurances	105,401
Fica, Retirement, Etc.	142,993
Other Benefits	2,500
Purchased Services	197,421
Supplies and Materials	69,238
Capital Outlay	63,288
Other	54,180
Total Instructional Staff	<u>\$1,277,577</u>

GENERAL ADMINISTRATION

Salaries - Professional	144,164
Salaries - Non-Professional	132,963
Insurances	53,417
Fica, Retirement, Etc.	55,816
Other Benefits	7,000
Purchased Services	154,429
Supplies and Materials	20,567
Other	24,465
Total General Administration	<u>\$592,821</u>

SCHOOL ADMINISTRATION

Salaries - Professional	1,148,653
Salaries - Non-Professional	350,522
Insurances	411,283
Fica, Retirement, Etc.	324,034
Other Benefits	7,500
Purchased Services	10,073
Supplies and Materials	68,187
Capital Outlay	3,584
Other	6,525
Total School Administration	<u>\$2,330,361</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2005

SUPPORT SERVICES (Continued)

BUSINESS OFFICE

Salaries - Professional	\$98,685
Salaries - Non-Professional	101,295
Insurances	59,281
Fica, Retirement, Etc.	43,407
Other Benefits	3,000
Purchased Services	36,787
Capital Outlay	1,473
Other	40,091
Total Business Office	<u>\$384,019</u>

OPERATION AND MAINTENANCE OF PLANT

Salaries - Professional	50,566
Salaries - Non-Professional	1,037,278
Insurances	400,155
Fica, Retirement, Etc.	301,450
Other Benefits	750
Purchased Services	429,947
Supplies and Materials	458,064
Capital Outlay	55,967
Other	749
Total Operation and Maintenance of Plant	<u>\$2,734,926</u>

TRANSPORTATION

Salaries - Professional	33,090
Salaries - Non-Professional	479,689
Insurances	58,431
Fica, Retirement, Etc.	113,897
Purchased Services	141,886
Supplies and Materials	186,938
Capital Outlay	2,348
Other	948
Total Transportation	<u>\$1,017,227</u>

OTHER SUPPORT SERVICES

Salaries - Professional	94,205
Salaries - Non-Professional	91,248
Insurances	47,399
Fica, Retirement, Etc.	40,127
Other Benefits	3,500
Purchased Services	385,286
Supplies and Materials	85,731
Capital Outlay	16,509
Other	2,872
Total Other Support Services	<u>\$766,877</u>

<u>Total Support Services</u>	<u>\$10,887,226</u>
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MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN

GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES

FOR THE YEAR ENDED JUNE 30, 2005

COMMUNITY SERVICES

Salaries - Professional	\$16,224
Salaries - Non-Professional	20,434
Fica, Retirement, Etc.	8,237
Supplies and Materials	5,469
Other	372
Total Community Services	<u>\$50,736</u>

Total Expenditures \$27,724,214

OTHER FINANCING USES

Other Construction Projects	144,294
Transfers to School Service Funds	365,098
Total Other Financing Uses	<u>\$509,392</u>

TOTAL EXPENDITURES AND OTHER FINANCING USES \$28,233,606

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2005

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
Revolving Fund	\$1,276	\$3,117	\$4,193	\$200
Alternative Education	1,045	7,361	5,921	2,485
Education Endures Scholarship	669	0	99	570
High School Band	566	2,133	1,637	1,062
High School Choral	519	6,198	5,525	1,192
High School Class of 2003	4,156	0	4,156	0
High School Class of 2004	2,252	0	2,252	0
High School Class of 2005	761	6,672	6,583	850
High School Class of 2006	765	11,919	10,769	1,915
High School Class of 2007	807	1,369	1,604	572
High School Class of 2008	0	1,240	1,240	0
High School Coaches Fund	7,666	4,438	6,764	5,340
High School DECA	7	3,380	2,876	511
High School Drama	876	150	150	876
High School Ecology	2,766	0	0	2,766
High School EMI	335	25	80	280
High School French	71	0	71	0
High School Handbook	119	33	0	152
High School Miscellaneous	40,892	29,195	28,894	41,193
High School Morale	147	0	147	0
High School Nat. Honor Soc.	85	400	260	225
High School Parking	475	2,375	2,823	27
High School Photography	1,311	0	1,311	0
High School Pool & Lock	156	584	525	215
High School Project Outreach	2,045	0	2,045	0
High School Racing	551	0	0	551
High School S.A.D.D.	377	824	987	214
High School Senior Celebration	2,176	9,594	8,475	3,295
High School Shop	981	265	0	1,246
High School Spanish Club	131	0	131	0
High School Student Council	5,632	3,875	2,742	6,765
High School Student News	769	31,277	30,628	1,418
High School Technology	5,830	4,013	0	9,843
High School Tennis	253	300	300	253
High School Wood/Metal	212	918	750	380
High School Yearbook 2002	118	0	118	0
High School Yearbook 2003	1,382	4,858	6,240	0
High School Yearbook 2004/200	0	1,240	0	1,240
Skip Program	187	676	589	274
Sports Baseball	708	1,262	1,820	150
Sports Basketball	0	25	0	25
Subtotal	\$89,074	\$139,716	\$142,705	\$86,085

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN

TRUST AND AGENCY FUND

SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2005

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2004	RECEIPTS	DISBURSEMENTS	JUNE 30, 2005
Sports Cheerleading	\$609	\$4,923	\$3,648	\$1,884
Sports Football	1,053	5,381	4,349	2,085
Sports Golf	343	300	385	258
Sports Misc	11,780	10,568	8,177	14,171
Sports Soccer	85	985	973	97
Sports Softball	0	445	0	445
Sports Swim	509	737	550	696
Sports Tennis	321	1,295	1,286	330
Sports Track	0	1,132	1,132	0
Sports Volleyball	1,420	8,317	8,823	914
Junior High Band	1,060	2,329	2,913	476
Junior High Cedarpoint	0	5,100	5,100	0
Junior High Choir	4,297	3,474	2,352	5,419
Junior High Library	28	1,950	1,889	89
Junior High Misc	24,476	20,846	24,422	20,900
Junior High Nat. Honor	832	2,037	2,371	498
Junior High Student Council	0	967	487	480
Junior High Yearbook	0	2,196	2,141	55
Central Band	817	568	976	409
Central Library	7,627	5,507	4,863	8,271
Central Misc	25,283	4,006	5,980	23,309
Central Pencil	343	1,458	1,016	785
Central St. Council	903	0	371	532
Central Teacher Fund	36,584	31,399	46,912	21,071
Montague Elementary	1,886	10,569	8,315	4,140
Moore Elementary	1,753	9,761	7,174	4,340
Pinehurst Elementary	3,397	3,835	6,002	1,230
Pinehurst Pop Fund	1,969	1,463	406	3,026
Mt. Morris Wrestling	789	8	0	797
M M Little League	95	0	0	95
M M Youth Football	1,818	27	0	1,845
Transportation	824	691	1,271	244
TOTALS	\$219,975	\$281,990	\$296,989	\$204,976

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2005

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$560,813

1998 DURANT RESOLUTION PACKAGE BONDS

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2006	\$27,145	4.761353%	\$12,237	\$39,382
2007	28,431	4.761353%	10,944	39,375
2008	131,077	4.761353%	54,768	185,845
2009	31,211	4.761353%	8,172	39,383
2010	32,696	4.761353%	6,686	39,382
2011	34,253	4.761353%	5,129	39,382
2012	35,882	4.761353%	3,498	39,380
2013	37,590	4.761353%	1,790	39,380
<u>TOTAL</u>	<u>\$358,285</u>		<u>\$103,224</u>	<u>\$461,509</u>

MT. MORRIS CONSOLIDATED SCHOOLS

MT. MORRIS, MICHIGAN

FEDERAL AWARDS
SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2005

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 23, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Mt. Morris Consolidated Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mt. Morris Consolidated Schools, as of and for the year ended June 30, 2005, which collectively comprise the Mt. Morris Consolidated Schools' basic financial statements and have issued our report thereon dated August 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mt. Morris Consolidated Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mt. Morris Consolidated Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of Mt. Morris Consolidated Schools, in a separate letter dated August 23, 2005.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf PC

LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

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August 23, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Education of
Mt. Morris Consolidated Schools

Compliance

We have audited the compliance of Mt. Morris Consolidated Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Mt. Morris Consolidated Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mt. Morris Consolidated Schools' management. Our responsibility is to express an opinion on Mt. Morris Consolidated Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mt. Morris Consolidated Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mt. Morris Consolidated Schools' compliance with those requirements.

In our opinion, Mt. Morris Consolidated Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Mt. Morris Consolidated Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mt. Morris Consolidated Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Mt. Morris Consolidated Schools

Page 2

August 23, 2005

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mt. Morris Consolidated Schools, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 23, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Mt. Morris Consolidated Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the finance committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Direct Programs:			
Indian Education - Grants to Local Educational Agencies	84.060A		
Indian Education (03-04)		S060A030755	\$120,224
Indian Education (04-05)		B060A040755	114,481
Total Direct Programs - Indian Education			<u>\$234,705</u>
Passed Through Michigan Department of Education:			
Title I Grants to Local Educational Agencies	84.010		
ESEA Title I (03-04)		041530-0304	597,047
Title I Part A Imp Basic Pro		041530-0405	3,021
Title I Part D (C/O)		041700-0405	19,253
Title I Part D		051700-0405	163,822
ESEA Title I (04-05)		051530-0405	543,812
Total Title I Grants to Local Educational Agencies			<u>\$1,326,955</u>
Innovative Education Program Strategies	84.298		
Title V (03-04)		040250-0304	20,689
Title V (04-05)		050250-0405	16,710
Total Innovative Program Strategies			<u>\$37,399</u>
Technology Literacy Challenge Grants	84.318		
Technology Literacy Challenge (03-04)		044290-0304	14,518
Technology Literacy Challenge (04-05)		054290-0405	13,820
Total Technology Literacy Challenge Grants			<u>\$28,338</u>
Comprehensive School Reform Demonstration	84.332		
Comprehensive School Reform Demonstration (03-04)		031870-0304	114,124
Comprehensive School Reform Demonstration (03-04)		041870-0405	130,384
Total Comprehensive School Reform Demonstration			<u>\$244,508</u>
Improving Teacher Quality	84.367		
Title II A (03-04)		040520-0304	186,070
Title II A (04-05)		050520-0405	184,498
Total Improving Teacher Quality			<u>\$370,568</u>
Total Passed Through Michigan Department of Education			<u>\$2,007,768</u>
Passed Through Genesee Intermediate School District			
Special Education - Grants to States:	84.027		
IDEA Flow Through (03-04)		040450-0304	671,490
IDEA Flow Through (04-05)		050450-0405	771,033
Transition Services (04-05)		050490-TS	2,300
Total Special Education - Grants to States			<u>\$1,444,823</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2004	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
\$8,209	\$120,224	\$0	\$0	\$8,209	\$0
0	0	114,481	0	77,233	37,248
\$8,209	\$120,224	\$114,481	\$0	\$85,442	\$37,248
15,128	550,104	46,943	0	62,071	0
0	0	3,021	0	3,021	0
0	0	19,253	0	17,328	1,925
0	0	116,772	0	111,849	4,923
0	0	376,723	0	325,144	51,579
\$15,128	\$550,104	\$562,712	\$0	\$519,413	\$58,427
900	20,689	0	0	900	0
0	0	16,710	0	13,665	3,045
\$900	\$20,689	\$16,710	\$0	\$14,565	\$3,045
774	14,518	0	0	774	0
0	0	13,820	0	12,593	1,227
\$774	\$14,518	\$13,820	\$0	\$13,367	\$1,227
21,280	83,482	30,642	0	51,922	0
0	0	124,046	0	119,349	4,697
\$21,280	\$83,482	\$154,688	\$0	\$171,271	\$4,697
352	186,070	0	0	352	0
0	0	184,498	0	180,691	3,807
\$352	\$186,070	\$184,498	\$0	\$181,043	\$3,807
\$38,434	\$854,863	\$932,428	\$0	\$899,659	\$71,203
113,395	671,490	0	0	11,339	102,056
0	0	771,033	0	447,685	323,348
0	0	2,300	0	2,300	0
\$113,395	\$671,490	\$773,333	\$0	\$461,324	\$425,404

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u> (Continued)			
Passed Through Genesee Intermediate School District (Continued)			
Vocational Education - Basic Grants to States:	84.048		
Perkins Secondary Regional (03-04)		043520-401215	\$23,550
Perkins Secondary Regional (04-05)		053520-5012-15	23,484
Total Vocational Education - Basic Grants to States			<u>\$47,034</u>
Special Education - Preschool Grants:	84.173		
IDEA Preschool Incentive (03-04)		040460-0304	31,747
IDEA Preschool Incentive (04-05)		050450-0405	40,357
Total Special Education - Preschool Grants			<u>\$72,104</u>
Safe & Drug Free Learning (03-04)	84.184L	S184LO20281-3	10,896
Safe and Drug-Free Schools and Communities - State Grants	84.186		
Drug-Free Schools (04-05)		052860-0405	4,200
PEP - C.M. White Physical Fitness	84.215F	Q215F031137	937
Total Passed Through Genesee Intermediate School District			<u>\$1,579,994</u>
<u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			<u>\$3,822,467</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Michigan Department of Education:			
Food Distribution	10.550		
Entitlement Commodities		N/A	36,860
Bonus Commodities		N/A	4,670
Total Commodities			<u>\$41,530</u>
National School Breakfast Program	10.553	N/A	95,863
National School Lunch Program	10.555	N/A	397,059
National School Special Milk Program	10.556	N/A	3,104
Passed Through Michigan Department of Natural Resources			
Arbor Day Mini-Grant	10.664		
Arbor Day Mini-Grant (03-04)		04-13	<u>200</u>
<u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>			<u>\$537,756</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2004	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
\$23,550	\$23,550	\$0	\$0	\$23,550	\$0
0	0	23,484	0	23,484	0
\$23,550	\$23,550	\$23,484	\$0	\$47,034	\$0
2,362	31,747	0	0	2,362	0
0	0	40,357	0	25,954	14,403
\$2,362	\$31,747	\$40,357	\$0	\$28,316	\$14,403
0	1,200	9,696	0	9,696	0
0	0	1,709	0	0	1,709
0	0	937	0	937	0
\$139,307	\$727,987	\$849,516	\$0	\$547,307	\$441,516
\$185,950	\$1,703,074	\$1,896,425	\$0	\$1,532,408	\$549,967
0	0	36,860	0	36,860	0
0	0	4,670	0	4,670	0
\$0	\$0	\$41,530	\$0	\$41,530	\$0
0	0	95,863	0	95,863	0
0	0	397,059	0	397,059	0
0	0	3,104	0	3,104	0
200	200	0	0	200	0
\$200	\$200	\$537,556	\$0	\$537,756	\$0

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through United Way of Genesee and Lapeer Counties TANF	93.558		
Bridges to the Future		N/A	\$21,097
Passed Through Genesee Intermediate School District Medicaid Administrative Outreach	93.778	N/A	28,853
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			\$49,950
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed Through Genesee Intermediate School District WIA Title I	17.259		
Year Round Youth Services		007-K-04	450
<u>TOTAL FEDERAL AWARDS</u>			<u>\$4,410,623</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2004	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
\$0	\$0	\$21,097	\$0	\$21,097	\$0
0	0	28,853	0	28,853	0
\$0	\$0	\$49,950	\$0	\$49,950	\$0
0	0	450	0	450	0
\$186,150	\$1,703,274	\$2,484,381	\$0	\$2,120,564	\$549,967

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL REVENUE RECOGNIZED FOR SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS

\$2,484,381

FEDERAL REVENUE RECOGNIZED PER THE GENERAL
PURPOSE FINANCIAL STATEMENTS PURPOSE

General Fund

\$1,946,825

School Service Fund

537,556

TOTAL

\$2,484,381

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 8 of this report.
- 3) As of the date of completion of fieldwork, the Schedule of Transfers to Sub-Recipients from the Intermediate School Districts was not available. The amounts shown on the Schedule of Federal Financial Assistance as flow through from the Intermediate School Districts may not be conclusive.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
RECONCILIATION OF FORM R 7120 " GRANT SECTION AUDITOR'S REPORT"
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

<hr/>		
Current Payments Per the Grant Section Auditor's Report (Form R 7120)		\$1,409,018
<u>Less:</u> State Funded Grants		
School Breakfast Program State Funds		(13,333)
<u>Add:</u> Grants Passed Through the Genesee Intermediate School District:		
Special Education - Grants to States (CFDA 84.027)	\$461,324	
Vocational Education (CFDA 84.048)	47,034	
Special Education - Preschool Grants (CFDA 84.173)	28,316	
Safe and Drug Free Learning (CFDA 84.184L)	9,696	
PEP - CM White Physical Fitness (CFDA 84.251F)	937	
Medicaid - Administrative Outreach (CFDA 93.778)	28,853	
Total Grants Passed Through the Genesee Intermediate School District		576,160
Passed Through Michigan Department of Natural Resources		
Arbor Day Mini-Grant (CFDA 10.664)		200
Passed Through United Way of Genesee and Lapeer Counties		
TANF (CFDA 93.558)		21,097
Passed Through Genesee Intermediate School District		
WIA Title I (CFDA 17.259)		450
Direct Federal Aid - Indian Education (CFDA 84.060A)		85,442
Entitlement and Bonus Commodities (CFDA 10.550)		41,530
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF</u> <u>EXPENDITURES OF FEDERAL AWARDS</u>		<u>\$2,120,564</u>

MT. MORRIS CONSOLIDATED SCHOOLS- MT. MORRIS, MICHIGAN
SUMMARY OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)
84.010
84.027/84.173

Name of Federal Program or Cluster
Title I Grants to Local Educational Agencies
Special Education Cluster

Dollar threshold use to distinguish between type A and type B programs:

\$ 300,000.00

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no current year findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no current year findings.

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no prior year findings or questioned costs



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 23, 2005

To the Board of Education of
Mt. Morris Consolidated Schools

In planning and performing our audit of the financial statements of Mt. Morris Consolidated Schools for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Mt. Morris Consolidated Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

FUTURE ISSUES

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Mt. Morris Consolidated Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASBS No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)



Mt. Morris Consolidated Schools

Page 2

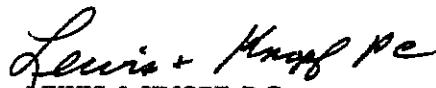
August 23, 2005

- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Mt. Morris Consolidated Schools’ Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.


LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS